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Message Text

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ACTION EB-04

INFO OCT-01 SS-14 ISO-00 NSC-05 SSO-00 INR-05 CIAE-00
NSAE-00 SP-02 L-01 EUR-08 EA-06 PRS-01 H-01
OMB-01 /049 W
----------103394 311955Z /40
P R 311759Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 2637
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
TREASURY DEPT WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 01690

LIMDIS, NOFORN

USEEC

E.O. 11652: XGDS-1
TAGS: ETRD, EFIN, JA, EEC, UK
SUBJECT: BRITISH DESIRE TO PRESSURE JAPAN

REF: STATE 23517

SUMMARY. BUTLER OF THE FCO NOTES THAT THE BRITISH HAVE NOT PRESSED FOR A SPECIFIC JAPANESE GROWTH TARGET HIGHER THAN 7 PERCENT BUT CONTINUE TO THINK IT WRONG TO ENDORSE 7 PERCENT. THEY WILL PUSH FOR AN EC APPROACH TO JAPAN WHICH WILL PRESS FOR FURTHER STIMULATIVE ACTION BY JAPAN - SPECIFICALLY, TAX CUTS. THEY MAY ALSO SUGGEST THAT INTERNATIONAL ENDORSEMENT BE GIVEN, NOT TO THE 7 PERCENT TARGET BUT TO THE OTHER JAPANESE TARGET OF CONFIDENTIAL

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A $6 BILLION CURRENT ACCOUNT SURPLUS IN 1978. DESPITE REFTEL, BUTLER HOPES THE U.S. WILL BE PREPARED TO ARGUE FOR A SUBSTANTIAL JAPANESE TAX CUT. IF THE U.S. WILL NOT DO THIS, JAPAN IN HIS VIEW WILL DO NOTHING. END SUMMARY.

1. THE ECONOMIC COUNSELOR CALLED ON MICHAEL BUTLER OF

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THE FCO ON JAN 31 AND WENT OVER THE POINTS IN REFTEL. BUTLER WAS OBVIOUSLY NOT SURPRISED BY THE SUBSTANCE OF OUR MESSAGE. HE RESPONDED AT LENGTH.

2. REGARDING TACTICS, HE MADE THE POINT THAT THE BRITISH HAVE ARGUED NOT FOR THE SETTING OF A SPECIFIC GROWTH TARGET HIGHER THAN 7 PERCENT, BUT FOR JAPANESE ACTIONS TO STIMULATE THEIR ECONOMY FURTHER. THE BRITISH HAVE, HE ADMITTED, CALLED TO JAPAN'S ATTENTION AN IMF ESTIMATE THAT JAPAN COULD GROW AT 8-9 PERCENT WITHOUT THIS CAUSIN INFLATION. BUTLER WENT ON TO SAY THAT HE HAD NEVER SUGGESTED FORMAL CONCERTED ACTION OR A JOINT APPROACH. IF THE EC AND THE US CAN CONSULT PRIVATELY AND IN-FORMALLY, AND THEN ACT IN PARALLEL, THE JAPANESE WILL LISTEN HARDER THAN IF EITHER ACTS SEPARATELY. BUTLER THOUGHT THAT HE HAD MADE THIS CONCEPT OF PARALLEL ACTION CLEAR BOTH TO COOPER AND TO HORMATS AND THAT HE HAD EXPRESSED CLEARLY HIS AGREEMENT THAT IT WAS NOT DESIR-ABLE TO APPEAR TO GANG UP ON JAPAN.

3. BUTLER RECOGNIZED THAT THERE WAS A DIFFERENCE ON SUBSTANCE BETWEEN THE US AND THE UK. HE THOUGHT THE "VERY RELAXED" WASHINGTON VIEW MIGHT BE BASED ON A DIFFERENT ASSESSMENT OF WHAT THE JAPANESE BALANCE OF PAYMENTS SURPLUS WAS LIKELY TO BE IN 1978. HE UNDER-STOOD THAT WASHINGTON THOUGHT $7.5 BILLION WAS A CONFIDENTIAL

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POSSIBILITY. BRITISH FORECASTS INDICATE A JAPANESE CURRENT ACCOUNT SURPLUS GREATER THAN THE $11.1 BILLION REGISTERED IN 1977. BUTLER SAID HE INTENDED TO ASK THE BRITISH TREASURY TO PUT ITS EXPERTS IN TOUCH WITH THE US TREASURY. HE ACKNOWLEDGED THAT IF THE LIKELY ORDER OF MAGNITUDE OF THE JAPANESE SURPLUS WAS BELOW THE BRITISH FORECAST, THIS WOULD AFFECT THE BRITISH GOVERNMENT'S ATTITUDE.

4. HOWEVER, THE PRESENT BRITISH VIEW IS THAT THE YEN HAD BEEN LEFT SERIOUSLY UNDERVALUED AS A RESULT OF THE DEPRECIATIONS OF 1973-74; ONLY IN THE LAST QUARTER OF 1977 HAD IT GOT BACK TO THE 1973 LEVEL. THIS LEVEL WAS NOT SUFFICIENT TO HALT THE GROWTH OF THE JAPANESE EX-PORTS. ON THE IMPORT SIDE THE MEASURES THE JAPANESE GOVERNMENT IS TAKING ARE NOT SUFFICIENT TO LEAD TO A SUBSTANTIAL RISE IN IMPORTS, ESPECIALLY AS THE STIMULA-TIVE MEASURES THE GOJ HAS TAKEN ARE IN THE FIELD OF PUBLIC EXPENDITURES AND IN BUTLER'S VIEW WON'T LEAD TO THE DESIRED INCREASE IN IMPORTS. THE PRESENT BRITISH VIEW IS THEREFORE EXTREMELY GLOOMY ABOUT THE PROSPECTS FOR THE JAPANESE SURPLUS.

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5. THE JAPANESE GROWTH RATE. WHILE THE BRITISH HAD

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OMB-01 /049 W
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P R 311759Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 2638
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY PARIS
AMEMBASSY ROME
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C O R R E C T E D C O P Y (TEXT GARBLED THROUGH-OUT)

BEEN CAREFUL NOT TO TELL THE JAPANESE WHAT GROWTH RATE THEY SHOULD HAVE, THEY HAD POINTED OUT TO USHIBA DURING HIS RECENT VISIT (SEPTEL) THAT THE MORE GROWTH, THE LESS THE PRESSURE ON THE YEN. THE PRECISE MIX OF YEN APPRECIATION AND INCREASED GROWTH WAS FOR THE JAPANESE TO DECIDE. BUT THE BRITISH CERTAINLY WOULD NOT WANT TO ENDORSE THE 7 PERCENT TARGET FOR 1978 BECAUSE, UNLESS THE JAPANESE WERE WILLING TO PERMIT A GREAT APPRECIATION OF THE YEN IT WAS DOUBTFUL THAT THIS GROWTH RATE WOULD REDUCE THE SURPLUS AS DESIRED. BUTLER WOULD PERSON ALLY BE MORE INCLINED TO FAVOR INTERNATIONAL RECOGNITION OF THE TARGET OF A $6 BILLION CURRENT ACCOUNT SURPLUS IN 1978 AS A MAJOR, HALFWAY STEP TOWARD ELIMINATION OF THE SURPLUS IN 1979. HE FELT THAT IF THE JAPANESE WERE
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COMMITTED INTERNATIONALLY TO THE $6 BILLION TARGET IN AN AREA WHICH THEY WOULD BE MORE DISPOSED TO REGARD AS A PROPER ONE FOR INTERNATIONAL COMMITMENT, OTHER COUNTRIES COULD HOLD THE JAPANESE TO APPROPRIATE ACTION TO ACHIEVE THAT TARGET.

6. ON TAX CUTS BUTLER STRONGLY DISAGREED WITH THE POSITION IN REFTEL. HE UNDERSTANDS THERE IS AN ARGUMENT GOING ON WITHIN THE JAPANESE GOVERNMENT, AND BETWEEN IT AND THE OPPOSITION, ON TAX CUTS. HE UNDERSTANDS THAT A SMALL TAX CUT WILL BE AGREED TO DURING THE FEBRUARY/ MARCH DEBATE ON THE BUDGET. HE THINKS IT IMPORTANT TO APPLY PRESSURE TO FUKUDA TO MAKE THE CUT A BIG ONE. BUTLER SAYS THERE IS SOME REASON TO BELIEVE THAT FUKUDA WILL EXPECT SUCH PRESSURE AND IT IS IMPORTANT TO APPLY PRESSURE ON THIS POINT BECAUSE OTHERWISE IT IS DOUBTFUL THAT JAPAN WILL REACH EVEN ITS OWN 7 PERCENT GROWTH TARGET. IF THE ISSUE OF FURTHER STIMULATION IS LEFT UNTIL THE JULY SUMMIT, IT WILL BE TOO LATE TO AFFECT THE 1978 OUTCOME, AND THE CONSEQUENCES WILL BE SEVERE IF THE JAPAN SURPLUS IS NOT SEEN TO BE COMING DOWN FAST THIS YEAR.

7. WHEN WE POINTED OUT THE US FEARS REGARDING THE CONTINUATION OF THE FUKUDA GOVERNMENT IF IT WERE PRESSED IN SUCH A WAY, BUTLER RETORTED THAT THE FRAILTY OF THE JAPANESE GOVERNMENT WAS THE RESULT OF THREE YEARS OF RUNNING THE JAPANESE ECONOMY AT A SLUMP RATE. IF THE GOJ CONTINUES TO STICK TO ITS PLANS, THE YEN WILL RISE FURTHER, AND FURTHER DEPRESS THE ECONOMY. IN HIS VIEW THE LACK OF A TAX CUT WILL WORSEN FUKUDA'S POSITION. AD-MITTEDLY, A TAX CUT WOULD MEAN AN EXPANSION FROM THE 37 PERCENT RATIO OF DEBT FINANCING, BUT HE DID NOT BELIEVE
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THIS WOULD LEAD TO MARKED INFLATIONARY PRESSURE. AS FOR THE JAPANESE RATIONALE THAT TAX CUTS ARE INEFFECTIVE BE-CAUSE OF THE HIGH JAPANESE MARGINAL SAVINGS RATIO, BUTLER VIEWS THIS AS AN ARGUMENT FOR A BIGGER TAX CUT, NOT FOR FOREGOING THE OPTION. THE ALTERNATIVE THE JAPANESE HAVE CHOSEN OF PUBLIC EXPENDITURE INCREASES HAS NO IMMEDIATE AND DIRECT, AND ONLY AN INDIRECT AND LONG-RUN EFFECT ON IMPORTS.

8. BUTLER FEELS INDEED THAT A TAX CUT IS THE KEY ISSUE.

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HE HOPES THE US WILL BE PREPARED TO MAKE IN PRIVATE A CASH FOR A SUBSTANTIAL JAPANESE TAX CUT. THIS IS ESSENTIAL, BUTLER THINKS, BECAUSE IF THE EC ASKS FOR A TAX CUT, AS HE IS SURE IT WILL, AND THE US SAYS NOTHING, JAPAN WILL DO NOTHING.

9. IN ADDITION THE EC MIGHT HAVE SOME SPECIFICS TO

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P R 311807Z JAN 78
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TO SECSTATE WASHDC PRIORITY 2639
INFO AMEMBASSY BRUSSELS
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AMEMBASSY PARIS
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URGE ON THE JAPANESE:

A. REGARDING TRADE, THE UK AND OTHER EC STATES HAVE A LOT OF "PET DEMANDS" SUCH AS A REDUCTION IN THE JAPANESE CONFECTIONARY TARIFF (BUT THESE ISSUES ARE NOT OF MAJOR IMMEDIATE IMPORTANCE).

B. HE DOES THINK THE EC SHOULD DISCUSS WITH THE "GOAL ORIENTED" JAPANESE SOME GOALS FOR IMPORTS OF MANUFACTURED GOODS, EITHER ACROSS THE BOARD OR SECTOR BY SECTOR.

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C. THE EC SHOULD PRESS THE JAPANESE TO DO MORE ON AID. JAPANESE AID IS STILL EXTREMELY SMALL AND MAINLY BENEFITS JAPANESE EXPORTS. JAPAN MIGHT BE ASKED TO TAKE ACTION EITHER GENERALLY OR IN TERMS OF SPECIFICS SUCH
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AS A MAJOR CONTRIBUTION TO IDA.

10. BUTLER SAID THAT AT THE FEBRUARY 7 EC COUNCIL OF MINISTERS THE COMMUNITY WOULD PROBABLY AGREE TO PRESS ON,ASKING THE JAPANESE FOR TAX CUTS AND FOR ACTION ON THESE SPECIFICS. HE SAID
THERE WAS AS YET NO COMMISSION TEXT FOR THE MEETING, BUT THERE WAS A GENERAL FEELING WITHIN THE COMMUNITY THAT PRESSURE MUST BE KEPT UP FOR MORE ACTION BY THE JAPANESE NOW. HE WAS REASONABLY OPTIMISTIC THAT THE BROAD LINES OF THE APPROACH HE DESCRIBED WOULD BE AGREED BY THE COMMUNITY. HE NOTED THAT THE UK AND FRENCH WERE IN 100 PERCENT AGREEMENT, AND THAT IN ALL EC DISCUSSIONS SO FAR THERE HAD BEEN SURPRISINGLY STRONG SUPPORT FOR THE BRITISH VIEW FROM ITALY, GERMANY AND DENMARK. A CATCH MIGHT BE THE US ATTITUDE AS PRESENTED IN REFTEL.

11. BUTLER WOUND UP BY SAYING THAT THE UK ATTACHED GREAT IMPORTANCE TO PRIVATE CONSULTATIONS BETWEEN THE UK AND THE EC ON THE ONE HAND, AND THE US ON THE OTHER HAND, ON THIS SUBJECT. IT WOULD BE VERY UNFORTUNATE IF THE US AND THE COMMUNITY COULDN'T REACH AN UNDER-STANDING BY FEBRUARY 7 OR SOON THEREAFTER.

12. IN ANOTHER CONVERSATION THE TREASURY REPRESENTATIVE INFORMED AN HM TREASURY OFFICIAL OF THE US REJECTION OF THE BRITISH DESIRE FOR COORDINATED PRESSURE ON JAPANESE (REFTEL). THE BRITISH TREASURY OFFICIAL SAID HE UNDERSTOOD OUR POSITION BUT FOUND IT REGRETTABLE. WE HAVE COMMON AIMS. IT SHOULD BE POSSIBLE TO WORK TOGETHER IN CLOSER COLLABORATION ON TACTICS AND STRATEGY EVEN IF IT OFFENDS JAPANESE SENSIBILITIES. THE BRITISH OFFICIAL SAID IT IS CLEAR, HOWEVER, THAT THE US DESIRES
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AN ESSENTIALLY BILATERAL POSITION.

BREWSTER

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Message Attributes

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Current Classification: UNCLASSIFIED
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Draft Date: 31 jan 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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Disposition Reason:
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Previous Handling Restrictions: LIMDIS
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Secure: OPEN
Status: NATIVE
Subject: BRITISH DESIRE TO PRESSURE JAPAN
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To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/5e19c7e1-c288-dd11-92da-001cc4696bcc
Review Markings:
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